

ORIGINAL



0000054886

MEMORANDUM

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TO: Docket Control

FROM: Ernest G. Johnson  
Director  
Utilities Division

EA for EGJ

DATE: June 19, 2006

RE: STAFF REPORT FOR TORTOLITA WATER COMPANY'S APPLICATION  
FOR A PERMANENT RATE INCREASE (DOCKET NO. W-02301A-05-0873)

Attached is the Staff Report for Tortolita Water Company's application for a permanent rate increase. Staff recommends approval of the application using Staff's recommended rates and charges.

EGJ:CRM:tdp

Originator: Charles R. Myhlhousen

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Service List for: Tortolita Water Company  
Docket No. W-02301A-05-0873

Ms. Karyn Ullery  
Tortolita Water Company  
3567 East Sunrise Drive Suite 119  
Tucson, Arizona 85718

Mr. Christopher C. Kempley  
Chief, Legal Division  
Arizona Corporation Commission  
1200 West Washington Street  
Phoenix, Arizona 85007

Mr. Ernest G. Johnson  
Director, Utilities Division  
Arizona Corporation Commission  
1200 West Washington Street  
Phoenix, Arizona 85007

Ms. Lyn Farmer  
Chief, Hearing Division  
Arizona Corporation Commission  
1200 West Washington Street  
Phoenix, Arizona 85007

**STAFF REPORT  
UTILITIES DIVISION  
ARIZONA CORPORATION COMMISSION**

**TORTOLITA WATER COMPANY**

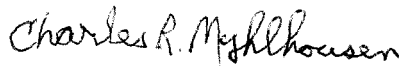
**DOCKET NO. W-02301A-05-0873**

**APPLICATION FOR A  
PERMANENT RATE INCREASE**


**JUNE 19, 2006**

## STAFF ACKNOWLEDGMENT

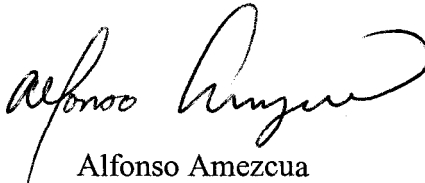
The Staff Report for Tortolita Water Company, ("Company") Docket No. W-02301A-05-0873 was the responsibility of the Staff members listed below. Charles R. Myhlhousen was responsible for the review and analysis of the Company's application, recommended revenue requirements, rate base and rate design. Delbert Smith was responsible for the engineering and technical analysis. Alfonso Amezcua was responsible for reviewing customer complaints filed with the Commission.



Charles R. Myhlhousen  
Public Utility Analyst III



Delbert Smith  
Chief of Engineering



Alfonso Amezcua  
Public Utilities Consumer Analyst II

**EXECUTIVE SUMMARY  
TORTOLITA WATER COMPANY  
DOCKET NO. W-02301A-05-0873**

Tortolita Water Company ("Company") is engaged in the business of providing utility water service exclusively to Arizona customers in Pima County. The Company provides service to approximately four customers in the test year and only one customer in 2005. Pursuant to Decision No. 47973, the Company's current rates were effective June 8, 1977.

The Company's rate application requested an increase in revenue of \$1,841 or a 157.22 percent increase over test year annualized revenue of \$1,171. The Company's proposed revenue of \$3,012 results in an operating loss of \$4,590 for a negative operating margin. The Company's proposed rates would increase the typical residential bill with a median usage of 9,500 gallons from \$21.75 for a 5/8 inch meter to \$59.25 for a 5/8 inch meter and one inch meter, for an increase of \$37.50 or 172.4 percent. See Schedule CRM-5.

Staff's recommended rates would increase revenue by \$16,474 or a 1,406.83 percent increase over test year annualized revenue of \$1,171. Staff's recommended revenue of \$17,645 results in an operating income of \$2,990 for an operating margin of 16.95 percent. Staff's recommended rates would increase the typical residential bill with a median usage of 9,500 gallons from \$21.75 for a 5/8 inch meter to \$59.00 for a 5/8 inch meter and one inch meter, for an increase of \$37.25 or 171.30 percent. See Schedule CRM-5.

The Company only had four customers in the test year and lost three of those the following year. The Company installed all new plant with the exception of the well and one storage tank. The Company is developing a sub-division into 25 residential lots. These new customers will all have one inch meters. Staff developed its recommended revenue and rates on the one inch meter and 25 customers and altered (at the Company's request) the Company proposed figures to reflect 25 customers.

Staff recommends approval of its rates and charges as presented on Schedule CRM-4 of this report.

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**Attachment**

Engineering Report

**Fact sheet**

**Current Rates:**

Decision No. 47973, June 8, 1977, rates effective June 8, 1977.

**Type of Ownership:**

Arizona C Corporation.

**Location:**

The Company is located northwest of Tucson near Tangerine Road and Interstate 10 in Pima County.

**Rates:**

Permanent rate increase application filed: December 5, 2005, amended January 4, 2006, February 6, 2006 and March 16, 2006.

Current Test Year Ended: December 31, 2004.

Monthly Minimum Charges:

	Company Current Rates 5/8 inch	Company Proposed Rates one inch	Staff Recommended Rates one inch
Monthly Minimum Charge Based on meter as indicated	15.00	\$15.00	\$20.00
Gallons in Minimum	5,000	0	0
Commodity Charge Excess of minimum, per 1,000 gallons	1.50	n/a	n/a
All gallons for one inch meter			
Tier one zero to 7,500 gallons	n/a	3.50	n/a
Tier two from 7,501 gallons to 12,500 gallons	n/a	4.50	n/a
Tier Three all gallons over 12,500 gallons	n/a	5.50	n/a
Tier one zero to 4,000 gallons	n/a	n/a	3.00
Tier two from 4,001 gallons to 9,000 gallons	n/a	n/a	4.70
Tier three all gallons over 9,000 gallons	n/a	n/a	7.00
Typical residential bill (Based on meter as indicated with median usage of 9,500 gallons)	\$21.75	\$59.25	59.00



**Customers:**

Average number of customers in current test year is 4. There will be 25 when the sub-division is completely built out.

**Notification:**

Customer Notification was mailed on December 2, 2005.

**Complaints:**

From January 2003, to April 20, 2006, there have been no complaints, inquiries and opinions filed.

**Summary of Filing**

Based on the test year results as adjusted by Utilities Division Staff ("Staff") of the Arizona Corporation Commission ("Commission"), Tortolita Water Company ("Company") suffered an operating loss of \$13,021 as shown on Schedule CRM-1. The Company verbally altered its application, stating that it will utilize one inch meters instead of 5/8 inch meters for all residential customers.

The Company proposed rates produced operating revenues of \$3,012 and an operating loss of \$4,590 for a negative operating margin. The Company's proposed rates would increase the typical residential bill with a median usage of 9,500 gallons from \$21.75 for a 5/8 inch meter to \$59.25 for a 5/8 inch meter and one inch meter, for an increase of \$37.50 or 172.40 percent. See Schedule CRM-5.

The Company will now have only one inch meters for their residential customers and will have no commercial customers. Staff's recommended rates produce a revenue level of \$17,645 and an operating income of \$2,990 for an operating margin of 16.95 percent. Staff's recommended rates would increase the typical residential bill with a median usage of 9,500 gallons from \$21.75 for a 5/8 inch meter to \$59.00 for a 5/8 inch meter and one inch meter, for an increase of \$37.25 or 171.30 percent. See Schedule-CRM-5.

The Company does not currently use the Uniform System of Accounts provided by the National Association of Regulatory Utility Commissioners ("NARUC"). Staff recommends that the Company use this system of accounts.

**Company Background**

On December 5, 2005, the Company filed an application for a permanent rate increase with the Commission. On January 4, 2006, the Company's filing was found deficient. On January 19, 2006, February 21, 2006 and March 26, 2006, the Company submitted the deficient items. On April 19, 2006, the application was deemed sufficient.

The Company only had four customers in the test year. In the year following the test year, the Company only had one customer due to developing that area into residential lots. The three customers who were disconnected are: a mobile home which was moved from the property; an irrigation system which was disconnected; and the third customer was an excavating company and that has completed its project.

### **Consumer Services**

A review of the Commission's records revealed the following: from January 2003, to April 20, 2006, there have been no complaints, inquiries or opinions filed.

### **Compliance**

A check with the Utilities Division Compliance Section showed no outstanding compliance issues.

The Company is current in its property and sales tax payments.

The Company is in good standing with the Corporations Division of the Commission.

The Company is in compliance with the new arsenic maximum, contaminant level.

The Company is not regulated by the Arizona Department of Environment Quality because it is a semi-public system since it currently has only one customer, but will be regulated when the number of customers increase.

The Company is within the Tucson Active Management Area. Since the Company supplies less than 250 acre-feet per year for non-irrigation use, it is considered a small provider and is not subject to the gallons per capita per day limit and conservation rules, and is only required to monitor and report water use.

### **Rate Base**

Staff made adjustments to rate base of \$305,460. These adjustments were made to reflect Staff's inclusion of post test year plant additions of \$381,919 and retaining the old well and one storage tank after refurbishment. The cost of refurbishing these items is included in the cost of the new plant. Contributions-in-Aid-of Construction ("CIAC") increased in the amount of \$381,919, amortization of CIAC was increased by \$19,913, and Staff's inclusion of the formula method for working capital allowance in the amount of \$1,457 resulted in a rate base of \$1,457. See Schedule CRM-2 page 1.

### **Plant-in-Service**

Staff removed the test year plant-in-service of \$76,459, as it was based on fully depreciated plant items. The book value old well and storage tank is zero, as they had been fully depreciated. The cost for refurbishing them is included in the post test year plant costs. Staff recommends that the test year plant-in-service be \$381,919. See Schedule CRM-2 page 2.

### **Accumulated Depreciation**

Staff increased the Company accumulated depreciation by \$5,242. Staff removed the accumulated depreciation on the old plant as it is fully depreciated and recommends accumulated depreciation on the post test year plant in the amount of \$19,913.

### **Advances-in-Aid of Construction**

The Company has no advances-in-aid-of-construction.

### **Contribution-in-Aid-of-Construction**

Staff increased CIAC from zero to \$381,919, to recognize its inclusion of contributed new plant in the post test year period. Staff amortized CIAC in the amount of \$19,913.

### **Working Capital**

The Company neglected to claim any working capital allowance. Staff included a working capital allowance of \$1,457 calculated using the formula method.

### **Operating Revenue**

Staff made no adjustment to metered revenue. The Company made two adjustments to metered revenue. The first adjustment was to report the revenue on the accrual basis and the second adjustment was to annualize the revenue for the test year. Staff concurs with these adjustments.

### **Operating Expenses**

Staff adjustments to operating expenses results in an increase of \$6,590. Staff increased the operating expenses from \$7,602 to \$14,192 as shown on Schedule CRM-3 page 1. Adjustments are discussed below.

Staff determined that the Company had only four customers in the test year and only one customer in the subsequent year. Staff made proforma adjustments to expenses so that they would more clearly reflect the total number of customers at build out of the sub-division of 25

residential lots. In this way the recommended rates would not put undue burden on the current customer.

Adjustment A: Staff made a proforma adjustment to increase purchased power by \$2,471 from \$567 to \$3,038 to reflect the projected cost of purchased power for 25 customers.

Adjustment B: Staff removed the office supplies and expense of \$56. The Company will engage an outside service company to handle the day to day administrative, billing and collections operations of the Company.

Adjustment C: Staff made a proforma adjustment to increase outside services by \$6,845 from \$1,375 to \$8,220 to reflect the cost of having an outside service company run the day to day office duties and also for the cost of an outside certified operator.

Adjustment D: Staff made a proforma adjustment to increase water testing by \$735 from zero to \$735.

Adjustment E: Staff decreased rent expense by \$2,600 from \$2,600 to zero. The Company no longer rents a mobile trailer home. It has been removed from the property.

Adjustment F: Staff decreased miscellaneous expense by \$110 from \$110 to zero. Company will not have the expense on a going-forward basis.

Adjustment G: Staff decreased depreciation expense by \$695 from \$695 to zero. The Company installed all new plant that was contributed therefore depreciation expense is offset by CIAC amortization.

### **Operating Margin**

Staff recommended rates and charges would provide an operating income of \$2,990 for an operating margin of 16.95 percent.

### **Revenue Requirement**

The Company's narrative portion of the application states that it needs this rate increase because the Company has never filed a rate case and is operating with the rates set in the original Certificate of Convenience and Necessity in 1977. The Company plans to add approximately 25 customers in the next two years as the lots are sold and homes built.

### **Rate Design**

The Company's proposed rates would increase the median usage customer's bill by 172.40 percent.

The Company is utilizing an inverted three-tier rate design. Staff concurs with this rate design. Staff does not concur with the tier break points for the one inch meter. Staff's recommended tiers provide an economic incentive for large consumption customers to conserve. No gallons are included in the minimum charge under the Company's proposed or Staff's recommended rates.

The Company, during the audit, determined that it would need a standpipe fee due to the new development and construction of the residential lots. Staff concurs and recommends a fee of \$5.00 per 1,000 gallons.

Staff concurs with the Company's proposed service line and meter installation charges.

The Company proposes to increase establishment fee from zero to \$25.00. Staff concurs with the Company's proposed establishment fee of \$25.00.

The Company proposes to increase reconnection (delinquent) fee from \$5.00 to \$50.00. After Staff's request, the Company has not provided adequate information to support its charge amount. Staff recommends \$40.00 as being reasonable and normal.

The Company did not propose a meter test (if correct) fee. Staff is recommending \$30.00 as being reasonable and normal.

The Company proposes to increase Non-Sufficient Funds ("NSF") check fee from zero to \$15.00. Staff concurs with the Company's proposed NSF fee of \$15.00.

The Company proposes to have a deferred payment fee per Commission's rule (R14-2-403.B). Staff concurs with the Company's proposed deferred payment fee.

The Company proposes to increase meter re-read from \$2.50 to \$10.00. Staff concurs with the Company's proposed meter re-read fee of \$10.00.

The Company proposes to have a late fee of 1.50 percent. Staff is recommending a late fee of 1.50 percent per month on the unpaid monthly balance as being reasonable and normal.

The Company did not propose a monthly service charge for fire sprinklers. Staff is recommending a monthly service charge for fire sprinklers. The new homes that will be built will be required to have fire sprinklers installed.

### **Staff Recommendations**

Staff recommends:

- Approval of Staff's rates and charges as shown on Schedule CRM-4. In addition to collection of its regular rates and charge, the Company may collect from its

customers a proportionate share of any privilege, sales or use tax per Commission Rule )14-2-490-D-5).

- That the Company docket with the Commission a tariff with its approved rates and charges within 30 days after the Decision in this matter is issued.
- That the Company use the Uniform System of Accounts provided by NARUC and within 60 days after the Decision in this case has been issued, the Company should file an affidavit with Docket Control stating that its books and accounting are now in compliance with NARUC.
- That the Company use the specific depreciation rates by NARUC category as recommended in the Engineering Report, Exhibit 3. (See Section J and Exhibit 3 for a discussion and tabulation of the recommended rates).
- That the Company be required to file a rate case application within five years after the Decision in this case has been issued.
- The plant amounts listed in the right-hand column of the table labeled Plant by Account number under Section B page 2 of the Engineering Report should be used for future reference and depreciation purposes.
- That the Company amend its curtailment tariff to reflect the correct Public Water System Identification Number and the revised tariff be filed with Docket Control, as a compliance item in this docket, for Staff review within 45 days of the effective date of the Decision in this matter.

**Tortolita Water Company**  
Docket No. W-02301A-05-0873  
Test Year Ended December 31, 2004

Schedule CRM-1

## SUMMARY OF FILING

	-- Present Rates --		-- Proposed Rates --	
	Company as Filed	Staff as Adjusted	Company as Filed	Staff as Recommended
Revenues:				
Metered Water Revenue	\$1,171	\$1,171	\$3,012	\$17,645
Unmetered Water Revenue	0	0	0	0
Other Water Revenues	0	0	0	0
<b>Total Operating Revenue</b>	<b>\$1,171</b>	<b>\$1,171</b>	<b>\$3,012</b>	<b>\$17,645</b>
Operating Expenses:				
Operation and Maintenance	\$6,396	\$13,681	\$6,396	\$13,681
Depreciation	695	0	695	0
Property & Other Taxes	466	466	466	466
Income Tax	45	45	45	508
<b>Total Operating Expense</b>	<b>\$7,602</b>	<b>\$14,192</b>	<b>\$7,602</b>	<b>\$14,655</b>
<b>Operating Income/(Loss)</b>	<b>(\$6,431)</b>	<b>(\$13,021)</b>	<b>(\$4,590)</b>	<b>\$2,990</b>
Rate Base O.C.L.D.	\$61,787	\$1,457	\$61,787	\$1,457
Operating Margin	-549.19%	-1111.96%	-152.39%	16.95%

### RATE BASE

	Original Cost			
	Company	Adjustment		Staff
Plant in Service	\$76,459	\$305,460	A	\$381,919
Less:				
Accum. Depreciation	14,671	5,242	B	19,913
<b>Net Plant</b>	<b>\$61,788</b>	<b>\$300,218</b>		<b>\$362,006</b>
Less:				
Plant Advances	\$0	\$0		\$0
Accumulated Deferred Income Taxes	0	0		0
<b>Total Advances</b>	<b>\$0</b>	<b>\$0</b>		<b>\$0</b>
Contributions Gross	\$0	\$381,919	C	\$381,919
Less:				
Amortization of CIAC	0	19,913	D	19,913
<b>Net CIAC</b>	<b>\$0</b>	<b>\$362,006</b>		<b>\$362,006</b>
<b>Total Deductions</b>	<b>\$0</b>	<b>\$362,006</b>		<b>\$362,006</b>
Plus:				
1/24 Power	(\$0)	\$127	E	\$127
1/8 Operation & Maint.	(0)	1,330	E	1,330
Inventory	0	0		0
Prepayments	0	0		0
<b>Total Additions</b>	<b>(\$1)</b>	<b>\$1,457</b>		<b>\$1,457</b>
<b>Rate Base</b>	<b>\$61,787</b>	<b>(\$60,331)</b>		<b>\$1,457</b>

*Explanation of Adjustment:*

- A - Staff removed the old plant that was no longer used or useful in the amount of \$75,764. Staff allowed the new contributed plant in the amount of \$381,919.
- B - See Schedule CRM-2 page 3.
- C - Based on information from the Company, Staff reclassified the new plant in service as contributed plant.
- D - See Schedule CRM-3 page 3.
- E - Staff's inclusion of formula-method working capital, based on recommended operating expenses.



**Tortolita Water Company**

Docket No. W-02301A-05-0873

Test Year Ended December 31, 2004

Schedule CRM-2

Page 2 of 3

**PLANT ADJUSTMENT**

	Company Exhibit	Adjustment	Staff Adjusted
301 Organization	\$0	\$0	\$0
302 Franchises	0	0	0
303 Land & Land Rights	50,000	(50,000) A	0
304 Structures & Improvements	20,000	107,338 B	127,338
307 Wells & Springs	0	0	0
311 Pumping Equipment	5,000	58,634 C	63,634
320 Water Treatment Equipment	0	0	0
330 Distribution Reservoirs & Standpipes	0	0	0
330.1 Storage Tanks	0	37,995 D	37,995
330.2 Pressure Tanks	695	25,369 E	26,064
331 Transmission & Distribution Mains	0	101,500 F	101,500
333 Services	695	12,805 G	13,500
334 Meters & Meter Installations	69	(69) H	0
335 Hydrants	0	11,888 I	11,888
336 Backflow Prevention Devices	0	0	0
339 Other Plant and Misc. Equipment	0	0	0
340 Office Furniture & Equipment	0	0	0
341 Transportation Equipment	0	0	0
343 Tools Shop & Garage Equipment	0	0	0
344 Laboratory Equipment	0	0	0
345 Power Operated Equipment	0	0	0
346 Communication Equipment	0	0	0
347 Miscellaneous Equipment	0	0	0
348 Other Tangible Plant	0	0	0
105 C.W.I.P.	0	0	0
<b>TOTALS</b>	<b>\$76,459</b>	<b>\$305,460</b>	<b>\$381,919</b>

*Explanation of Adjustment:*

- A through I - Staff allowed all of the new post test year plant installed in 2005.  
This new plant completely replaced all of the plant in the test year.  
Staff removed all of the old plant in service during the test year.  
See adjustments A through I. Staff adjusted column reflects the new  
post test year contributed plant in service.

## ACCUMULATED DEPRECIATION ADJUSTMENT

	<u>Amount</u>
Accumulated Depreciation - Per Company	\$14,671
Accumulated Depreciation - Per Staff	19,913 A
<b>Total Adjustment</b>	<b>\$5,242</b>

*Explanation of Adjustment:*

- A - Staff's accumulated depreciation reflects the accumulated depreciation on the new contributed post test year plant installed in 2005.

## STATEMENT OF OPERATING INCOME

	Company Exhibit	Staff Adjustments	Staff Adjusted
<b>Revenues:</b>			
461 Metered Water Revenue	\$1,171	\$0	\$1,171
460 Unmetered Water Revenue	0	0	0
474 Other Water Revenues	0	0	0
<b>Total Operating Revenue</b>	<b>\$1,171</b>	<b>\$0</b>	<b>\$1,171</b>
<b>Operating Expenses:</b>			
601 Salaries and Wages	\$0	\$0	\$0
610 Purchased Water	0	0	0
615 Purchased Power	567	2,471 A	3,038
618 Chemicals	0	0	0
620 Repairs and Maintenance	1,088	0	1,088
621 Office Supplies & Expense	56	(56) B	0
630 Outside Services	1,375	6,845 C	8,220
635 Water Testing	0	735 D	735
641 Rents	2,600	(2,600) E	0
650 Transportation Expenses	0	0	0
657 Insurance - General Liability	0	0	0
659 Insurance - Health and Life	0	0	0
666 Regulatory Commission Expense - Rate Case	600	0	600
675 Miscellaneous Expense	110	(110) F	0
403 Depreciation Expense	695	(695) G	0
408 Taxes Other Than Income	40	0	40
408.11 Property Taxes	426	0	426
409 Income Tax	45	0	45
<b>Total Operating Expenses</b>	<b>\$7,602</b>	<b>\$6,590</b>	<b>\$14,192</b>

<b>OPERATING INCOME/(LOSS)</b>	<b>(\$6,431)</b>	<b>(\$6,590)</b>	<b>(\$13,021)</b>
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<b>Other Income/(Expense):</b>			
419 Interest and Dividend Income	\$0	\$0	\$0
421 Non-Utility Income	5,275	0	5,275
427 Interest Expense	0	0	0
4XX Reserve/Replacement Fund Deposit	0	0	0
426 Miscellaneous Non-Utility Expense	0	0	0

<b>Total Other Income/(Expense)</b>	<b>\$5,275</b>	<b>\$0</b>	<b>\$5,275</b>
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<b>NET INCOME/(LOSS)</b>	<b>(\$1,158)</b>	<b>(\$6,590)</b>	<b>(\$7,746)</b>
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### STAFF ADJUSTMENTS

A	- PURCHASED POWER - Per Company	\$567	
	Per Staff	3,038	\$2,471

Staff made a proforma adjustment of \$2,558 to purchased power at 25 customers to reflect build-out.

B	- OFFICE SUPPLIES & EXPENSE - Per Company	\$56	
	Per Staff	0	(\$56)

Staff determined that all office duties will be contracted out to an outside firm.

C	- OUTSIDE SERVICES - Per Company	\$1,375	
	Per Staff	8,220	\$6,845

Staff made a proforma adjustment of \$8,220 to outside services to allow for contracting out all aspects of office duties.

D	- WATER TESTING - Per Company	\$0	
	Per Staff	735	\$735

To reflect Staff Engineering's expense level.

E	- RENTS - Per Company	\$2,600	
	Per Staff	0	(\$2,600)

Staff removed rent expense in the amount of \$2,600.  
The Company no longer pays this rent for a mobile home.  
The mobile home has been removed from the property.

F	- MISCELLANEOUS EXPENSE - Per Company	\$110	
	Per Staff	0	(\$110)

Staff removed this expense. The Company will no longer have this expense on a going forward basis.

**STAFF ADJUSTMENTS (Cont.)**

G	-	DEPRECIATION - Per Company	\$695	
		Per Staff	0	(\$695)

*Staff removed the depreciation expense claimed on the old plant in service. The depreciation for the new plant was netted out to zero amount by the CIAC amortization.*

**Pro Forma Annual Depreciation Expense:**

Plant in Service	\$381,919
Less: Non Depreciable Plant	0
Fully Depreciated Plant	0
Depreciable Plant	\$381,919
Times: Staff Proposed Depreciation Rate	0.05214%
Credit to Accumulated Depreciation	\$19,913 *
Less: Amort. of CIAC*	19,913
<b>Pro Forma Annual Depreciation Expense</b>	<b>\$0</b>

**\* Amortization of CIAC:**

Contribution(s) in Aid of Construction (Gross)	\$381,919
Less: Non Amortizable Contribution(s)	0
Fully Amortized Contribution(s)	0
Amortizable Contribution(s)	\$381,919
Times: Staff Proposed Amortization Rate	0.05214%
<b>Amortization of CIAC</b>	<b>\$19,913</b>

**RATE DESIGN**

Monthly Usage Charge	Present Company Staff		
	Rates	Proposed	Recommended
5/8" x 3/4" Meter	\$15.00	\$15.00	\$20.00
3/4" Meter	0.00	22.50	20.00
1" Meter	0.00	37.50	24.50
1½" Meter	0.00	75.00	125.00
2" Meter	0.00	120.00	200.00
3" Meter	0.00	240.00	375.00
4" Meter	0.00	375.00	625.00
6" Meter	0.00	750.00	1,250.00
Gallons Included in Minimum	5,000	0	0
Excess of Minimum - per 1,000 Gallons			
<b>5/8 x 3/4 Inch Meter</b>			
Tier One Zero gallons to 3,000 gallons	n/a	3.50	3.00
Tier Two From 3,001 gallons to 5,000 gallons	n/a	4.50	4.70
Tier Three All gallons over 5,000 gallons	n/a	5.50	7.00
<b>3/4 Inch Meter</b>			
Tier One Zero gallons to 3,000 gallons	n/a	3.50	3.00
Tier Two From 3,001 to 5,000 gallons	n/a	4.50	4.70
Tier Three All gallons over 5,000 gallons	n/a	5.50	7.00
<b>One Inch Meter</b>			
Tier One Zero gallons to 7,500 gallons	n/a	3.50	n/a
Tier Two From 7,501 to 12,500 gallons	n/a	4.50	n/a
Tier Three All gallons over 12,500 gallons	n/a	5.50	n/a
<b>One Inch Meter</b>			
Tier One Zero gallons to 4,000 gallons	n/a	n/a	3.00
Tier Two From 4,001 gallons to 9,000 gallons	n/a	n/a	4.70
Tier Three All gallon over 9,000 gallons	n/a	n/a	7.00
<b>One and One Half Inch Meter</b>			
Tier One Zero gallons to 15,000 gallons	n/a	3.50	3.00
Tier Two From 15,001 gallons to 25,000 gallons	n/a	4.50	4.70
Tier Three All gallons over 25,000 gallons	n/a	5.50	7.00
<b>Two Inch Meter</b>			
Tier One Zero gallons to 24,000 gallons	n/a	3.50	3.00
Tier Two From 24,001 gallons to 40,000 gallons	n/a	4.50	4.70
Tier Three All gallons over 40,000 gallons	n/a	5.50	7.00
<b>Three Inch Meter</b>			
Tier One Zero gallons to 48,000 gallons	n/a	3.50	3.00
Tier Two From 48,001 gallons to 80,000 gallons	n/a	4.50	4.70
Tier Three All gallons over 80,000 gallons	n/a	5.50	7.00
<b>Four Inch Meter</b>			
Tier One Zero gallons to 125,000 gallons	n/a	3.50	3.00
Tier Two From 125,001 gallons to 200,000 gallons	n/a	4.50	4.70
Tier Three All gallons over 200,000 gallons	n/a	5.50	7.00
<b>Six Inch Meter</b>			
Tier One Zero gallons to 150,000 gallons	n/a	3.50	3.00
Tier Two Form 150,001 gallons to 250,000 gallons	n/a	4.50	4.70
Tier Three All gallons over 250,000 gallons	n/a	5.50	7.00
<b>Standpipe per 1,000 gallons</b>	n/a	n/a	7.00
<b>Service Line and Meter Installation Charges</b>			
5/8" x 3/4" Meter	\$100.00	\$520.00	\$520.00
3/4" Meter	120.00	600.00	600.00
1" Meter	160.00	690.00	690.00
1½" Meter	300.00	935.00	935.00
2" Meter Turbo	400.00	1,595.00	1,595.00
2" Meter Compound	0.00	2,320.00	2,320.00
3" Meter Turbo	0.00	2,275.00	2,275.00
3" Meter Compound	0.00	3,110.00	3,110.00
4" Meter Turbo	0.00	3,520.00	3,520.00
4" Meter Compound	0.00	4,475.00	4,475.00
6" Meter Turbo	n/a	6,275.00	6,275.00
6" Meter Compound	n/a	8,050.00	8,050.00

Service Charges

Establishment	\$0.00	\$25.00	\$25.00
Establishment (After Hours)	n/a	35.00	35.00
Reconnection (Delinquent)	5.00	50.00	50.00
Meter Test (If Correct)	n/a	0.00	0.00
Deposit	Per Rule	Per Rule	*
Deposit Interest	Per Rule	Per Rule	*
Re-Establishment (Within 12 Months)	25.00	Per Rule	**
NSF Check	n/a	15.00	15.00
Deferred Payment	0.00%	Per Rule	*
Meter Re-read	2.50	10.00	10.00
Late Fee	n/a	1.5%p.m.	***

Monthly Service Charge for Fire Sprinkler

4" or Smaller	\$0.00	\$0.00	****
6"	0.00	0.00	****
8"	0.00	0.00	****
10"	0.00	0.00	****
Larger than 10"	0.00	0.00	****

\* Per Commission Rules (R14-2-403.B)

\*\* Months off system times the minimum (R14-2-403.D)

\*\*\* 1.50 percent per month on the unpaid monthly balance

\*\*\*\* 1.00% of Monthly Minimum for a Comparable Sized Meter Connection, but no less than \$5.00 per month. The Service Charge for Fire Sprinklers is only applicable for service lines separate and distinct from the primary water service line.

# **TYPICAL BILL ANALYSIS**

## **General Service One - Inch Meter**

Average Number of Customers: 25

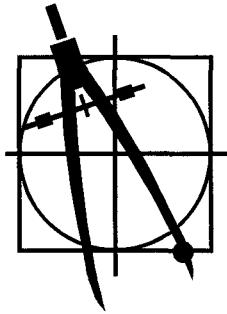
<u>Company Proposed</u>	<u>Gallons</u>	<u>Present Rates</u>	<u>Proposed Rates</u>	<u>Dollar Increase</u>	<u>Percent Increase</u>
Average Usage	9,500	\$21.75	\$59.25	\$37.50	172.4%
Median Usage	9,500	\$21.75	\$59.25	\$37.50	172.4%

<u>Staff Recommend</u>	<u>Gallons</u>	<u>Present Rates</u>	<u>Proposed Rates</u>	<u>Dollar Increase</u>	<u>Percent Increase</u>
Average Usage	9,500	\$21.75	\$59.00	\$37.25	171.3%
Median Usage	9,500	\$21.75	\$59.00	\$37.25	171.3%

## **Present & Proposed Rates (Without Taxes)** **General Service One - Inch Meter**

<u>Gallons Consumption</u>	<u>Present Rates</u>	<u>Company Proposed Rates</u>	<u>% Increase</u>	<u>Staff Proposed Rates</u>	<u>% Increase</u>
0	\$15.00	\$15.00	0.0%	\$20.00	33.3%
1,000	15.00	18.50	23.3%	23.00	53.3%
2,000	15.00	22.00	46.7%	26.00	73.3%
3,000	15.00	25.50	70.0%	29.00	93.3%
4,000	15.00	30.00	100.0%	32.00	113.3%
5,000	15.00	34.50	130.0%	36.70	144.7%
6,000	16.50	40.00	142.4%	41.40	150.9%
7,000	18.00	45.50	152.8%	46.10	156.1%
8,000	19.50	51.00	161.5%	50.80	160.5%
9,000	21.00	56.50	169.0%	55.50	164.3%
10,000	22.50	62.00	175.6%	62.50	177.8%
15,000	30.00	89.50	198.3%	97.50	225.0%
20,000	37.50	117.00	212.0%	132.50	253.3%
25,000	45.00	144.50	221.1%	167.50	272.2%
50,000	82.50	282.00	241.8%	342.50	315.2%
75,000	120.00	419.50	249.6%	517.50	331.3%
100,000	157.50	557.00	253.7%	692.50	339.7%
125,000	195.00	694.50	256.2%	867.50	344.9%
150,000	232.50	832.00	257.8%	1,042.50	348.4%
175,000	270.00	969.50	259.1%	1,217.50	350.9%
200,000	307.50	1,107.00	260.0%	1,392.50	352.8%





**Engineering Report For  
Tortolita Water Company  
Docket No. W-02301A-05-0873  
(Rates)**

**CONCLUSIONS**

1. The water system has adequate storage and well production. (See Section B and Exhibit 2 for a discussion and a process schematic for the water system.)
2. The level of arsenic reported for the Company's well complies with the new arsenic MCL.
3. The Tortolita Water system is not regulated by ADEQ because it is a semi-public system.
4. A check of the Utilities Division compliance database showed no delinquencies for Tortolita Water.
5. ADWR reported that Tortolita Water is in compliance with its monitoring and reporting requirements.
6. Tortolita Water has an approved curtailment tariff on file with the ACC.

**RECOMMENDATIONS**

1. The plant amounts listed in the right-hand column of the table labeled Plant by Account under Section B should be used for future reference and depreciation purposes.
2. Water testing expenses should be adjusted to the annual expense amount of \$735. (See Section G for a discussion.)
3. Staff recommends that Tortolita Water Company use specific depreciation rates by NARUC category. (See Section J and Exhibit 3 for a discussion and a tabulation of the recommended rates.)
4. Staff recommends that the Company amend its curtailment tariff to reflect the correct Public Water System Identification Number. Staff further recommends that the revised tariff be filed with Docket Control, as a compliance item in this docket, for Staff review within 45 days of the effective date of the decision in this matter.

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## **EXHIBITS**

CERTIFICATED AREA AND LOCATION OF COMPANY .....	EXHIBIT 1
PROCESS SCHEMATIC .....	EXHIBIT 2
DEPRECIATION RATES.....	EXHIBIT 3

**A. INTRODUCTION AND LOCATION OF COMPANY**

On December 5, 2005, Tortolita Water Company ("Tortolita Water" or "Company") filed a rate application. Tortolita Water is located northwest of Tucson near the Tangerine Road/Interstate 10 Interchange in Pima County. Tortolita Water's system was originally designed in 1976 to serve a 12 lot subdivision which was never built. However the Company remained and currently serves two connections. The water system was recently expanded in preparation of serving a new subdivision known as "The Estate Lots at Tortolita Preserve" which is a 25 lot single family subdivision with each lot ranging in size from approximately 2.5 acres to 4 acres. Exhibit 1 describes the certificated area of the water company within Pima County.

**B. DESCRIPTION OF THE WATER SYSTEM**

The plant facilities were visited on March 13, 2006, by Dorothy Hains, Charles Myhlhousen and Del Smith in the accompaniment of Ms. Karyn Ullery, accountant for the water company, Mr. Al Heimpel and Ms. Karen Hartwell, certified operator of the water system.

The facilities followed the typical configuration found in small water systems, the system consisted of a single well site equipped with one well which pumped into two storage tanks, followed by booster pumps and a pressure tank. The facilities are new with the exception of the well which was drilled in 1970 and one of the storage tanks. The entire well site was secured with a six foot high block wall. The Tortolita Water system (Public Water System No. 10-164) is currently classified as a semi-public water system since there are less than 15 connections serving less than 25 people.

The water system has adequate storage and well production. Exhibit 2 provides a process schematic for the water system.

### Well Data & Plant Summary

	Well Site	
ADWR ID No.	55-801242	
Casing Size	8 inch	
Casing Depth	700 ft	
Pump Type	Submersible	
Pump Size	5 Hp	
Pump Yield	22 gal/min	
Chlorinator	no	
Storage Tanks	Two 15,000 gal	
Booster Pumps	Two 3 Hp, parallel & Two 40 Hp, parallel (fire flow)	
Pressure Tank	2,000 gal	
Distribution Mains	Material	Quantity
6 Inch	PVC	1,500 lineal ft
8 Inch	PVC	2,600 lineal ft
6 Inch	Ductile Iron	54 lineal ft
8 Inch	Ductile Iron	90 lineal ft
Meters	1 inch	27

Staff recommends that the plant amounts shown in the right-hand column of the following table be used for future reference and depreciation purposes.

Plant by Account

Account Number	Description	Company (\$)	Staff (\$)
301	Organization	14500	(Note 1)
302	Franchise		
303	Land and Land Rights		
304	Structures & Improvements	131838	127338 (Note 2)
305	Collecting & Impounding Reservoirs		
306	Lake, River, Canal Intakes		
307	Wells & Springs		
308	Infiltration Galleries		
309	Raw Water Supply Mains		
310	Power Generation Equipment		
311	Pumping Equipment	56529	63634
320	Water Treatment Equipment		
320.1	Water Treatment Plants		
320.2	Solution Chemical Feeders		
330	Distribution Reservoirs & Standpipes		
330.1	Storage Tanks	33500	37995
330.2	Pressure Tanks	18664	26064
331	Transmission & Distribution Mains	91650	101500
333	Services	27238	13500 (Note3)
334	Meters		
335	Hydrants	8000	11888
336	Backflow Prevention Devices		
339	Other Plant & Misc Equipment		
340	Office Furniture & Equipment		
340.1	Computers & Software		
341	Transportation Equipment		
342	Stores Equipment		
343	Tools, Shop & Garage Equipment		
344	Laboratory Equipment		
345	Power Operated Equipment		
346	Communication Equipment		
347	Miscellaneous Equipment		
348	Other Tangible Plant		
Total Water Plant		381919	381919

Notes: 1) Re-allocated site inspection and testing costs to Accounts 311 and 330 (\$7,105 to 311, \$4,495 to 330.1 and \$2,900 to 330.2).

2) Re-allocated air compressor, piping, fitting costs of \$4,500 to Account 330.2.

3) Re-allocated 6 and 8 inch valve costs of \$7,850 to Account 331. Re-allocated ductile iron pipe costs of \$3,888 to Account 335. Re-allocated drain valve assembly costs of \$2,000 to Account 331.

**C. ARSENIC**

The U.S. Environmental Protection Agency ("EPA") has reduced the arsenic maximum contaminant level ("MCL") in drinking water from 50 micrograms per liter ("µg/l") to 10 µg/l. The level of arsenic reported for the Company's well complies with the new arsenic MCL.

**D. ARIZONA DEPARTMENT OF ENVIRONMENTAL QUALITY ("ADEQ") COMPLIANCE**

The Tortolita Water system is not regulated by ADEQ because it is a semi-public system.

**E. ARIZONA CORPORATION COMMISSION ("ACC") COMPLIANCE**

A check of the Utilities Division compliance database showed no delinquencies for Tortolita Water (status as of January 4, 2006).

**F. ARIZONA DEPARTMENT OF WATER RESOURCES ("ADWR") COMPLIANCE**

Tortolita Water is within the Tucson Active Management Area. Since the water company supplies less than 250 acre-feet per year for non-irrigation use, it is considered a "small provider" and is not subject to the gallons per capita per day ("GPCD") limit and conservation rules, and is only required to monitor and report water use. ADWR reported that Tortolita Water is in compliance with its monitoring and reporting requirements.

**G. WATER TESTING EXPENSE**

On December 8, 1998, ADEQ adopted rules which provide for a monitoring assistance program ("MAP"). The MAP program was fully implemented in 1999. On October 16, 2001, rule amendments were promulgated which changed the fee structure and some sampling protocol. Starting January 1, 2002, water companies began paying a fixed \$250 per year fee, plus an additional fee of \$2.57 per service connection, regardless of meter size for participation in the MAP program. Participation in the MAP program is mandatory for water systems which serve less than 10,000 persons, (approximately 3,300 service connections), and Tortolita is subject to the MAP program.

Water testing costs were calculated, based on the following assumptions:

- MAP will do baseline testing on all parameters except copper, lead, nitrates, and coliform bacteria.
- ADEQ testing is performed in 3 year compliance cycles. Therefore, monitoring costs are estimated for a 3 year compliance period and then presented as a *pro forma* expense on an annualized basis.

- Expenses are included for a complete inorganic analyses at each well. This will provide important aesthetic and water quality information for the Company and the consumer (i.e., hardness, salinity, iron, manganese, alkalinity).
- All monitoring expenses are based on Staff's best knowledge of lab costs and methodology and one point of entry for each water system.
- The estimated water testing expenses represent a minimum cost based on no "hits" and assumes the Company has qualified for reduced lead and copper sampling. If any constituents were found, then the testing costs would dramatically increase.

Water testing expenses should be adjusted to the annual expense amount shown in the table below. While Tortolita Water has historically not been required to participate in the MAP program due to its semi-public status, during its site inspection staff was informed that the Company planned to begin participating in the MAP program.

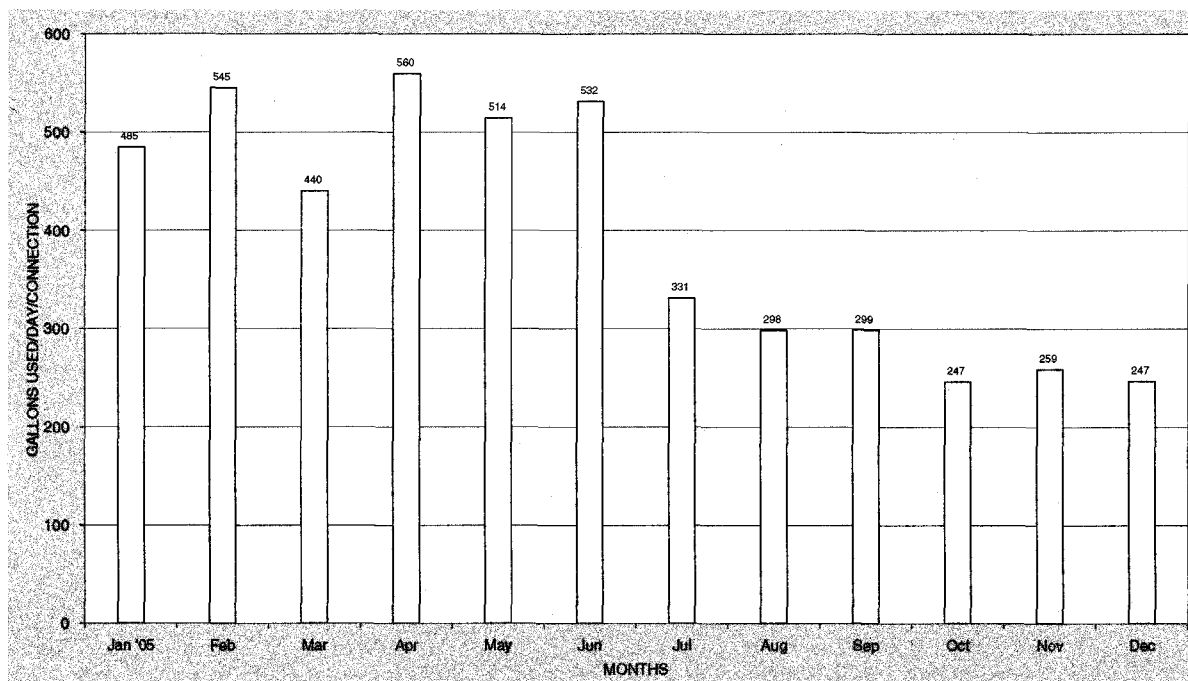
Water Testing Cost

Monitoring – 1 well (Tests per 3 years, unless noted.)	Cost per test	No. of tests per 3 years	Total 3 year cost	Annual Cost
Bacteriological – monthly	\$15	36	\$540	\$180
Inorganics (& secondary)	\$240	1	\$240	\$80
Radiochemical – (1/ 4 yrs)				MAP
IOC's, SOC's, VOC's				MAP
Nitrites				MAP
Nitrates – annual	\$30	3	\$90	\$30
Asbestos – per 9 years				MAP
Lead & Copper – annual	\$25	15	\$375	\$125
MAP fees (based on 27 services)				\$320
Total				\$735

## H. WATER USE

### Water Sold

Based on the information provided by the Company, water use for the year 2005 is presented below. For Tortolita Water, the high monthly domestic water use was 560 gal/day-service in April, and the low monthly domestic water use was 247 gal/day-service in October. The average annual use was 396 gal/day-service. Monthly water use during 2005 is shown in the figure below:



### Non-account Water

Non-account water should be 10% or less and never more than 15%. It is important to be able to reconcile the difference between water sold and the water produced by the source. A water balance will allow a water company to identify water and revenue losses due to leakage, theft, and flushing. Non-account water for the Company was calculated to be 4.2% on an overall basis for 2005. This water loss calculation is based on an old distribution system which was replaced in January 2006.



**I. GROWTH**

The Tortolita Water system was recently expanded in preparation of serving a new 25 lot single family home subdivision. The Company expects the new subdivision to be completely developed within five years which equates to five connections per year.

**J. DEPRECIATION RATES**

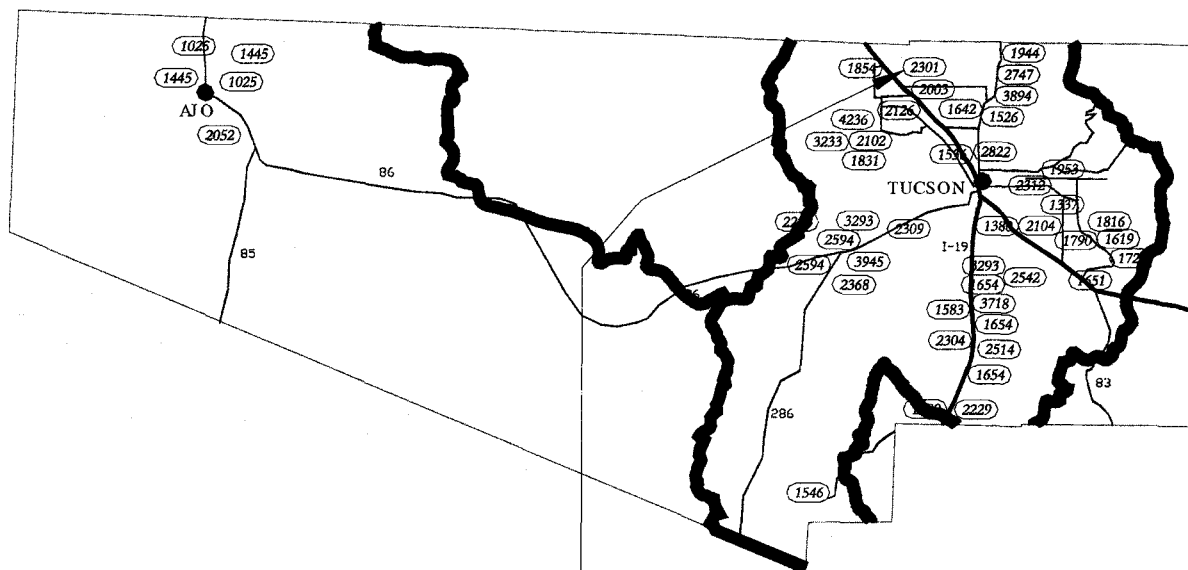
In recent orders, the Commission has been shifting away from the use of composite rates in favor of individual depreciation rates by NARUC category. (NARUC is an acronym for National Association of Regulatory Utility Commissioners.)

Staff has developed typical and customary depreciation rates within a range of anticipated equipment life. These rates are presented in Exhibit 3, and were used to re-calculate the annual depreciation expense for the Company. It is recommended that the Company use depreciation rates by individual NARUC category, as delineated in Exhibit 3.

**K. CURTAILMENT PLAN TARIFF**

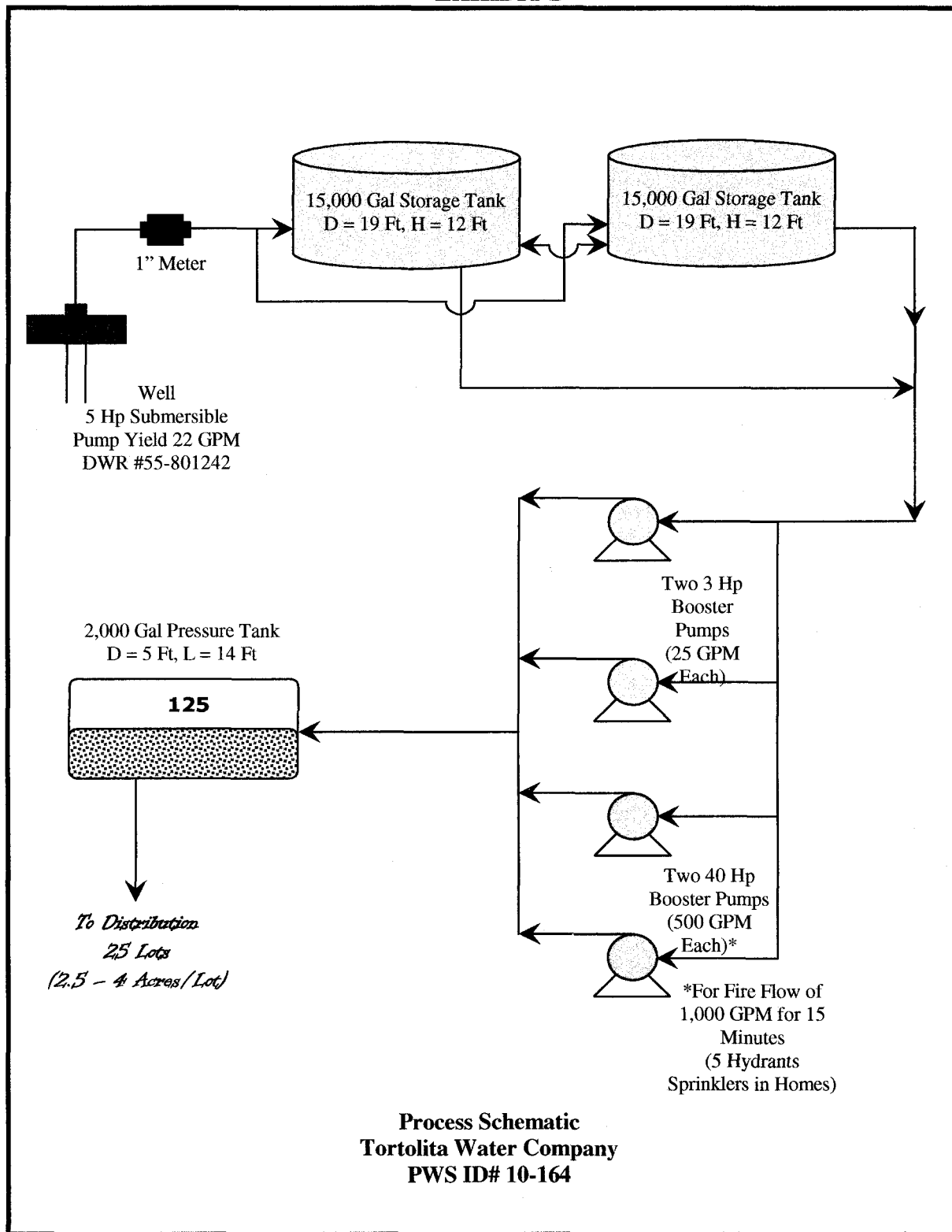
Tortolita Water has an approved curtailment tariff on file with the ACC. Staff recommends that the Company amend this tariff to reflect the correct Public Water System Identification Number. Staff further recommends that the revised tariff be filed with Docket Control as a compliance item for Staff review within 45 days of the effective date of the decision in this matter.

P I M A C O U N T Y



- |      |   |      |   |
|------|---|------|---|
| 1025 | AJO IMPROVEMENT COMPANY                     | 2102 | RANCHO DEL CONEJO WATER COMMUNITY COOPERATIVE |
| 3233 | ANWAY MANVILLE L.L.C. WATER COMPANY         | 3718 | RANCHO SAHUARITA WATER COMPANY                |
| 1546 | ARIVACA TOWNSITE COOPERATIVE WATER COMPANY  | 1380 | RAY WATER COMPANY                             |
| 1445 | ARIZONA WATER COMPANY (AJO HEIGHTS)         | 2003 | RILLITO WATER USERS                           |
| 2126 | AVRA WATER COOPERATIVE, INC.                | 1619 | RINCON CREEK WATER COMPANY                    |
| 2304 | COMMUNITY WATER COMPANY OF GREEN VALLEY     | 1337 | RINCON RANCH ESTATES WATER COMPANY, INC.      |
| 1642 | DESPOBLADO WATER COMPANY                    | 1723 | RINCON WATER COMPANY                          |
| 2309 | DIABLO VILLAGE WATER COMPANY                | 1790 | SAGUARO WATER COMPANY                         |
| 1654 | FARMERS WATER COMPANY                       | 1831 | SANDARIO WATER COMPANY                        |
| 3945 | FRANCESCA WATER COMPANY, INC.               | 2822 | SLEEPY HOLLOW MOBILE HOME ESTATES             |
| 2312 | HALCYON ACRES ANNEX # 2 WATER COMPANY, INC. | 1816 | SPANISH TRAIL WATER COMPANY                   |
| 1953 | HALCYON ACRES WATER USERS ASSOCIATION       | 3894 | STEAM PUMP INVESTORS, L.L.C.                  |
| 2542 | LA CASITA WATER COMPANY, INC.               | 3293 | THIM UTILITY COMPANY                          |
| 1944 | LAGO DEL ORO WATER COMPANY                  | 2594 | THIM WATER CORPORATION                        |
| 1809 | LAKEWOOD WATER COMPANY                      | 4236 | TIERRA LINDA HOMEOWNERS ASSOCIATION, INC.     |
| 1583 | LAS QUINTAS SERENAS WATER COMPANY           | 2301 | TORTOLITA WATER COMPANY, INC.                 |
| 1536 | LAZY C WATER SERVICE                        | 1651 | VAIL WATER COMPANY                            |
| 2747 | LOS CERROS WATER COMPANY, INC.              | 2229 | VIVA DEVELOPMENT CORPORATION                  |
| 1854 | LYN-LEE WATER COMPANY                       | 2104 | VOYAGER WATER COMPANY                         |
| 1526 | MESALAND WATER COMPANY, INC.                | 2052 | WHY UTILITY COMPANY                           |
| 2368 | MIRABELL WATER COMPANY, INC.                | 2221 | WORDEN WATER COMPANY                          |
| 2514 | QUAIL CREEK WATER COMPANY, INC.             |      |   |

## EXHIBIT 2



**EXHIBIT 3**  
**TYPICAL DEPRECIATION RATES FOR WATER COMPANIES**

NARUC Account No.	Depreciable Plant	Average Service Life (Years)	Annual Accrual Rate (%)
304	Structures & Improvements	30	3.33
305	Collecting & Impounding Reservoirs	40	2.50
306	Lake, River, Canal Intakes	40	2.50
307	Wells & Springs	30	3.33
308	Infiltration Galleries	15	6.67
309	Raw Water Supply Mains	50	2.00
310	Power Generation Equipment	20	5.00
311	Pumping Equipment	8	12.5
320	Water Treatment Equipment		
320.1	Water Treatment Plants	30	3.33
320.2	Solution Chemical Feeders	5	20.0
330	Distribution Reservoirs & Standpipes		
330.1	Storage Tanks	45	2.22
330.2	Pressure Tanks	20	5.00
331	Transmission & Distribution Mains	50	2.00
333	Services	30	3.33
334	Meters	12	8.33
335	Hydrants	50	2.00
336	Backflow Prevention Devices	15	6.67
339	Other Plant & Misc Equipment	15	6.67
340	Office Furniture & Equipment	15	6.67
340.1	Computers & Software	5	20.00
341	Transportation Equipment	5	20.00
342	Stores Equipment	25	4.00
343	Tools, Shop & Garage Equipment	20	5.00
344	Laboratory Equipment	10	10.00
345	Power Operated Equipment	20	5.00
346	Communication Equipment	10	10.00
347	Miscellaneous Equipment	10	10.00
348	Other Tangible Plant	----	----

**NOTES:**

- These depreciation rates represent average expected rates. Water companies may experience different rates due to variations in construction, environment, or the physical and chemical characteristics of the water.
- Acct. 348, Other Tangible Plant may vary from 5% to 50%. The depreciation rate would be set in accordance with the specific capital items in this account.